

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20 STR-08 CEA-02

SS-20 NSC-10 PA-04 PRS-01 USIA-15 L-03 H-03 DRC-01

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FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC PRIORITY 5863

UNCLAS SAN JOSE 0017

E.O. 11652: N/A

TAGS: ETRD, EAGR, CS

SUBJECT: SUGAR: REQUEST FOR INFORMATION ON
HOST COUNTRY INDUSTRY

REF: STATE A-9355, SAN JOSE A-234, TELCOM SULLIVAN/
LANE OF 1/2/74

SUMMARY: THE SUGAR INDUSTRY OF COSTA RICA HAS BEEN DYNAMIC AND
IS ANTICIPATED TO CONTINUE TO EXPAND IN THE FUTURE. THE
PREVAILING DOMESTIC VIEW IS THAT THE FUTURE RATE OF EX-
PANSION IS PRINCIPALLY KEYED TO THE U.S. QUOTA AND THAT
THERE

IS AMPLE CAPACITY TO EXPAND. WITHOUT ENLARGED QUOTAS,
IT IS FELT THAT PRODUCTION ADVANCES WOULD HAVE TO BE LIM-
ITED TO THE ANNUAL INCREASES IN DOMESTIC CONSUMPTION. THE
U.S. MARKET IS VIEWED AS THE ONLY MARKET FOR COSTA RICAN
SUGAR; AND THIS PAST YEAR WAS THE FIRST TIME SIGNIFICANT
SALES WERE MADE TO THE WORLD MARKET. THESE SALES WERE
MADE AT A TIME WHEN THE INDICATED U.S. QUOTA HAD BEEN
FILLED AND A SURPLUS STILL REMAINED. DESPITE THESE SALES
TO THE WORLD MARKET, THE SUGAR LEAGUE WAS ABLE TO SUPPLY

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SUGAR AT SOME OF THE LATE FIRST-COME, FIRST-SERVED QUOTA

ALLOTMENTS.

THE SUGAR INDUSRY PLAYS AN IMPORTANT ROLE IN THE LOCAL ECONOMY WITH SUGAR BEING THE MOST IMPORTANT EXTENSIVE CROP AND ACCOUNTING FOR ABOUT 5 PERCENT OF AGRICULTURAL PRODUCTION AND OVER 5 PERCENT OF TOTAL EXPORT EARNINGS. THE SUGAR MILLS ARE GENERALLY OLD AND NOT MODERN, BUT 2 NEW ONES ARE CURRENTLY BEING INSTALLED AND 2 ADDITIONAL ONES ARE PROJECTED. THE TRANSPORTATION SYSTEM IS ALSO BEING MODERNIZED WITH THE CONSTRUCTION OF A SPECIAL AND SUGAR PORT. END SUMMARY.

1. OTHER HIGHLIGHTS OF REPORT: 1. SUGAR CANE MOST IMPORTANT EXTENSIVE CROP, 12 PERCENT OF TOTAL CROP LAND, 4.9 PERCENT OF VALUE 1972 AGRIC PRODUCTION, AND 5.8 PERCENT TOTAL VALUE ESTIMATED 1973 EXPORTS.

2. APPROXIMATELY 18,000 PRODUCERS WITH 68 PERCENT ACCOUNTING FOR 26 PERCENT LAND AND INDICATED AVERAGE HOLDING 6 1/2 ACRES. 28 SUGAR MILLS INCLUDING 26 PRIVATE AND 2 COOPS. MILLS IN HANDS OF NATIONALS, NO NOTABLE U.S. INVESTMENTS.

3. TWO COOP MILLS BEING INSTALLED AT CURRENT TIME, ONE IS RELOCATION OF FORMALLY PRIVATE MILL, OTHER PURCHASED SECONDHAND FROM PUERTO RICO. TOTAL INVESTMENT IN 2 MILLS IS ABOUT \$8 MILLION. CAPACITY OF MILLS HAS BEEN EXPANDED FROM 200,000 TONS (RAW SUGAR) IN 1968-69 TO 275,000 TONS IN 1972-73. AREA PLANTED TO SUGAR CANE UP TO 20 PERCENT SAME PERIOD AND ACTUAL RAW SUGAR PRODUCTION INCREASED FROM 145,000 TONS TO NEARLY 200,000 TONS. SUGAR LEAGUE AND CENTRAL BANK HAVE PROJECTED SUGAR PRODUCTION THROUGH 1979-80 AND BOTH INDICATE ROUGHLY 18 PERCENT INCREASE WITH INCREASE SLIGHTLY FAVORING INCREASED DOMESTIC CONSUMPTION OVER EXPORTS, BUT EXPORT STILL GAINING 40,000 TO 50,000 TONS. THESE PROJECTIONS ASSUME NO CHANGE U.S. QUOTA FOR COSTA RICA.

4. NO PRICE SUPPORTS, DEFICIENCY PAYMENTS OR SUBSIDIES. SUGAR LEAGUE IS DIRECT EXPORTER AND ALSO REGULATES INTERNAL MARKETINGS. DOMESTIC PRICES FIXED AND RETAIL UNCLASSIFIED

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PRICE HAS BEN COLONES 70.00 (\$6.40) PER CWT PAST 20 YEARS.

5. COST OF PRODUCTION ESTIMATED AT COLONES 40.81 (\$6.16) FOR ONE TON CANE DELIVERED MILL, COLONES 37.09 (\$5.61) FOR ONE CWT RAW SUGAR AT MILL, AND COLONES 47.55 (\$7.19) FOR ONE CWT IN EXPORT POSITION INCLUDING EXPORT TAXES, ETC.

6. OTHER INVESTMENT PLANS INCLUDE: CENTRAL BANK LOANS

TO IMPROVE SUGAR CANE PRODUCTION ON ABOUT 5,000 ACRES PER YEAR (ANNUAL \$1.3 MILLION), PROJECT BEFORE ASSEMBLY TO GUARANTEE INVESTMENT 2 ADDITIONAL COOPERATIVE MILLS AND SUPPORTING LAND (ABOUT 40 MILLION); AND NEW SPECIALIZED SUGAR PORT ALREADY UNDER CONSTRUCTION (ABOUT \$5 MILLION). THERE ARE SOME INDICATIONS THAT SOME GOCR OFFICIALS GIVING THOUGHT TO MAJOR PROGRAM FOR STIMULATING CANE PRODUCTION AND RATIONALIZING AND MODERNIZING PROCESSING INDUSTRY. PRELIMINARY TALKS HAVE BEEN HELD WITH WORLD BANK, BUT NO SPECIFICS AVAILABLE.

7. CENTRAL BANK ESTIMATES, THAT OF EXPORT PRICE, 38 PERCENT GOES TO LABOR, 52 PERCENT TO CAPITAL AND 10 PERCENT TO GOVERNMENT. WE THINK GOVERNMENT TAKE IS HIGHER IF DIFFERENTIAL EXCHANGE RATE TREATED AS EXPORT TAX.

8. FOR LATEST ON CURRENT SITUATION, SEE CR3021 OF OCTOBER 26, 1973. SOME OF STATISTICS REVISED AND UPDATED WITH A-234 AND NOW SEE 1973-74 RAW SUGAR PRODUCTION AT 212,500 SHORT TONS (VS. 191,500 TONS LAST SEASON), DOMESTIC CONSUMPTION 105,300 TONS (99,200) AND EXPORTS 120,000 (105,200). FOR CY 1974, EXPORTS FORECAST AT 120,000 TONS VERSUS 123,000 FOR CY 1973 WHEN STOCKS DRAWDOWN AND ABOUT 100,000 TONS WENT TO U.S. AMOUNT GOING TO U.S. CY 1974 DEPENDS ON QUOTA ALLOTMENTS AND TIMING OF ANNOUNCEMENT. VOLUME COULD BE HIGHER THAN 120,000 TONS IN CY 1974 OF FURTHER DRAWDOWN IN STOCKS.
TRANSMITTAL OF SAN JOSE A-234 ACCIDENTALLY DELAYED, WILL BE POUCHED TODAY.
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